

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**HB 2927 – SB 3049**

April 14, 2010

**SUMMARY OF AMENDMENTS (016289, 016842, 016843):** Designates proprietary information provided by applications to the Department of Economic and Community Development (ECD) after July 9, 2009 as confidential tax information. Authorizes the Commissioners of Revenue and ECD to allocate up to \$80 million in additional investment tax credits to the TNInvestco program. Prohibits the total amount of tax credits from exceeding \$200 million. Requires the Commissioners of Revenue and ECD and the Tennessee Technology Development Corporation to conduct an annual review of each TNInvestco at the end of each fiscal year. Authorizes a penalty equal to 80 percent of any distribution from the TNInvestco's investment if the business fails to locate its headquarters and 60 percent of all employees within Tennessee. Authorizes a penalty of \$250,000 paid to the Rural Opportunity Fund if areas of noncompliance are not cured by a TNInvestco company within one year of the original finding. Authorizes the Commissioners of Revenue and ECD to contract for legal services. Requires the Commissioners of Revenue and ECD to create a score card with objectives used to measure the TNInvestco's investment strategy.

**FISCAL IMPACT OF ORIGINAL BILL:**

MINIMAL

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:**

**Increase State Revenue – Net Impact – Exceeds \$7,000,000/Over Time/Rural Opportunity Fund**

**Increase State Revenue –  
\$20,000/Economic and Community Development/Recurring**

**Increase State Expenditures –  
\$20,000/Economic and Community Development/Recurring**

**Other Fiscal Impact –** The authorization of investment tax credits would cause a decrease of revenue to the General Fund of \$80,000,000 unless such revenue is replaced by another source of revenue. This total decrease would occur over a nine-year period (FY11-12 through FY19-20). However, the first \$80,000,000 of profit share percentage distributions made from TNInvestcos to the state

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**shall be allocated to the General Fund for the purpose of offsetting any such decrease that would occur due to the authorization of investment tax credits. As a result, the net impact to the General Fund is not significant. Any subsequent distributions and additional tax revenue generated from this act will then be allocated to the Rural Opportunity Fund and used to further support the state's economic development efforts.**

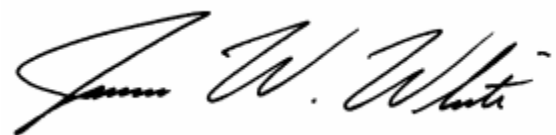
**A more precise cost estimate is not possible because the Department of Revenue and the Department of Commerce and Insurance have not provided any information to assist in the preparation of this fiscal note.**

Assumptions applied to amendments:

- According to ECD, the Department will not require additional positions to administer the program. Including two additional companies in the TNInvestco program can be accommodated within existing resources without an increased appropriation or reduced reversion.
- Gross premium tax revenue is deposited to the General Fund.
- Given the aggregate maximum of investment tax credits is established at \$200,000,000, and that such tax credits are to be utilized over a nine-year period, it is estimated that gross premium tax revenue to the General Fund would decrease by \$200,000,000 over a nine-year period (from FY11-12 through FY19-20) unless replaced by another source of revenue.
- According to DOR, the capital investment ventures undertaken by the TNInvestcos will produce at least a 12 percent rate of return.
- Participating investors are required to pay an annual certification fee of \$5,000 each year (or \$10,000 if paid after April 1 of each year) resulting in an increase in state revenue of \$20,000. There will be a corresponding increase in state expenditures to perform audits and legal services.
- Based on information previously provided by DOR, profit share percentage distributions from TNInvestcos to the state are expected to exceed \$87,000,000 over time. The first \$80,000,000 of such distributions will be allocated to the General Fund; an amount estimated to exceed \$7,000,000 will be allocated to the Rural Opportunity Fund.

## **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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